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Message Text

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E. O. 11652: N/A
TAGS: ENRG, JA
SUBJ: REORGANIZATION OF JAPAN'S DOMESTIC-CAPITAL OIL COMPANIES

SUMMARY. MITI'S SUDDEN ANNOUNCEMENT AT THE END OF 1975 OF A PLAN TO REORGANIZE THE JAPANESE DOMESTIC-CAPITAL OIL INDUSTRY UNDER GOVT GUIDANCE EVOKED WIDESPREAD OPPOITION IN THE INDUSTRY AND THE LDP, LEADING TO POSTPONEMENT OF ANY CONCRETE STEPS TO CARRY OUT THE PLAN UNTIL A NEWLY FORMED LDP COMMITTEE COMPLETES ITS STUDY OF THE ISSUE SOMETIME LATE IN 1976. END SUMMARY.

1. OVER THE PAST MONTH MITI HAS RETREATED STEADILY FROM ITS HASTILY ANNOUNCED DEC 1975 PLAN FOR A GOVT-GUIDED REORGANIZATION OF JAPAN'S DOMESTIC CAPITAL OIL INDUSTRY INTO TWO OR THREE LARGE GROUPS. AT A FEB 4 PRESS CONFERENCE MITI MIN KOMOTO DECLARED THAT THE GOJ'S NEW, HIGHER PRICE-GUIDELINES FOR PETROLEUM PRODUCTS ARE BEGINNING TO WORK THEIR WAY THROUGH THE MARKET AND THAT THE FIN-ANCIAL CRISIS OF THE OIL INDUSTRY HAS THUS BEEN RELIEVED SUFFICI-ENTLY TO PERMIT A THOROUGH RE-EXAMINATION OF THE REORGANIZATION ISSUE DURING FY 76. THE MITI PLAN, WHICH RECEIVED APPROVAL FROM THE PETROLEUM SUB-COMMITTEE OF THE OVERALL ENERGY RESEARCH COUN-CIL, PRECIPITATED FORMATION BY THE LDP OF A SPECIAL PETROLEUM IND-USTRY POLICY COMMITTEE (OVER 100 MEMBERS) WHICH WILL HOLD ITS FIRST
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MEETING FEB 10. THE LDP GROUP, REPORTEDLY ORGANIZED AT THE URGING

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OF MARUZEN AND OTHER OIL COMPANIES OPPOSED TO THE MITI PLAN, NOW
IS EXPECTED TO SPEND MOST OF 1976 FORMULATING A BASIC POLICY FOR
DEALING WITH THE STRUCTURAL PROBLEMS OF THE DOMESTIC OIL INDUSTRY.

2. IT WAS APPARENT WITHIN A FEW DAYS OF THE ANNOUNCEMENT OF THE
MERGER PLAN THAT MITI HAD NOT CONSULTED WITH INDUSTRY LEADERSHIP
OR LDP INFLUENTIALS. ON JAN 5 THE PRESIDENT OF DAIKYO OIL CO.,
SLATED FOR MERGER WITH THE GOJ-ORGANIZED KYODO GROUP IN THE TWO-
GROUP FORMULA AND WITH MARUZEN OIL CO. IN THE THREE-GROUP FORMULA, EX
PRESSED IRRITATION THAT THE FIRM HAD
NOT BEEN BRIEFED AT ALL ON THE GOVT'S PLAN. IDEMITSU,
THE SECOND LARGEST DOMESTIC FIRM AFTER KYODO, QUICKLY
DENOUNCED THE SCHEME. (IN CONVERSATION WITH EMBOFF, AN
IDEMITSU OFFICIAL DESCRIBED QTE REORGANIZATION UNQTE AS
A EUPHEMISM FOR A GOJ BAIL-OUT OF KYODO.) MANAGERS OF
KYODO'S CONSTITUENT REFINERY COMPANIES ALSO EXPRESSED
DIFFERENCES OF OPINION RE KYODO'S ROLE IN THE OIL
INDUSTRY'S NEW ORDER. OFFICIALS OF KEIDANDREN, IDEMITSU,
AND LOCAL AMERICAN REPS OF MOBIL AND CALTEX ALL INDICATED
TO EMBOFF THAT THEY AGREE WITH PRESS SPECULATION THAT
MITI'S SUDDEN ANNOUNCEMENT OF OIL INDUSTRY REORGANIZATION
CAME UNDER PRESSURE OF A FIN MIN CHALLENGE TO A
BUDGETARY ITEM FOR 10 BILLION YEN (ABOUT $33 MILLION)
TO PROMOTE STRUCTURAL REFORM OF THE DOMESTIC OIL
INDUSTRY. WHILE PERHAPS MITI HAD ORIGINALLY INTENDED
TO USE MUCH OF THE FUNDS TO ASSIST KYODO, IT QUICKLY
PRODUCED A BROADER AND MORE SPECIFIC REORGANIZATION
PROGRM IN AN EFFORT (WHICH WAS SUCCESSFUL) TO SAVE
THE APPROPRIATION. AS THE RATIONALE (STABILIZING
SUPPLIES AND INCREASING THE DOMESTIC FIRMS' MARKET
SHARE) AND THE MECHANICS OF THE MITI PLAN CAME UNDER
ATTACK FROM ALL SIDES, MITI INCREASINGLY STRESSED
THE IMPORTANCE OF VOLUNTARY COOPERATION AND INITIATIVE
FROM THE PRIVATE SECTOR, ITS BENIGN VIEW OF THE
POSITION OF THE MAJORS IN THE JAPANESE MARKET, AND ITS
WILLINGNESS TO INCLUDE THE MAJORS IN INCENTIVES FOR
STRUCTURAL REFORM OF THE INDUSTRY.

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3. THE NEED FOR INTEGRATION AND CONOLIDATION IN THE JAPANESE OIL INDUSTRY HAS BEEN UNDER DISCUSSION FOR MANY YEARS. AN OFFICIAL OF MITI'S RESOURCES AND ENERGY AGENCY POINTED OUT THAT JAPAN'S 38 DOMESTIC OIL COMPANIES FAR EXCEED THE NUMBER IN THE OTHER DEVELOPED COUNTRIES WHICH DEPEND ON IMPORTS FOR MOST OF THEIR OIL SUPPLIES AND ATTRIBUTED THE PROLIFERATION OF DOMESTIC FIRMS TO JAPAN'S HIGH GNP GROWTH RATE DURING THE 50'S AND 60'S. LOCAL MOBIL REP OBSERVED, HOWEVER, THAT MITI HAD DELIBERATELY FOSTERED THE ESTABLISHMENT OF COMPANIES IN AN UNSUCCESSFUL EFFORT TO REDUCE THE MAJORS' SHARE OF THE MARKET. IN ITS PREFERENTIAL GRANTING OF NEW REFINING CAPACITY TO THE DOMESTIC FIRMS IN THIS TIGHTLY CONTROLLED INDUSTRY, MITI HAD ALSO HELPED, HE SUGGESTED, TO CREATE THE OVER-CAPACITY IN THE DOMESTIC CAPITAL SECTOR WHICH IS AT THE HEART OF THE EXCESSIVE COMPETITION AND LOW PRICES NOW PLAGUING THE INDUSTRY. IDEMITSU OFFICIAL NOTED THAT MITI'S FAVORITISM OF KYODO WITHIN THE DOMESTIC CAPITAL SECTOR HAD ONLY HELPED IT ENLARGE ITS MARKET SHARE AT THE EXPENSE OF OTHER DOMESTIC FIRMS WHILE THE FOREIGN CAPITAL FIRMS HAVE ACTUALLY INCRASED THEIR MARKE SHARE (IN TERMS OF SALES) OVER THE YEARS SINCE KYODO
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WAS ESTABLISHED. MOBIL REP ADDED THAT IN THE PAST MITI, IN ITS INDUSTRY RATHER THAN CONSUMER-ORIENTED OUTLOOK, PUSHED THE DOMESTIC FIRMS INTO OVER CONCEN-TRATION ON PRODUCTION OF LOW-PROFIT PETROCHEMICAL FEEDSTOCKS AND HEAVY FUEL OIL TO SUPPLY ELECTRIC POWER COMPANIES AND THE HEAVY AND EHEMICAL INDUSTRIES, LEAVING THE MORE PROFITABLE CONSUMER PRODUCTS (GASOLINE AND KEROSENE) TO THE MAJORS. THUS, HE NOTED, THE DOMESTIC FIRMS NOW ARE HAVING TO BEAR THE BRUNT OF THE RECESSION AND TRANSITION TO A LOWER GROWTH RATE, WHILE THE MAJORS ARE QTE CREAMING THE BARREL UNQTE IN THE

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CONSUMER SECTOR WHERE SALES HAVE NOT SLUMPED SO BADLY. THUS MITI'S PRECIPITOUS ANNOUNCEMENT OF A RADICAL GOVT-MANAGED REORGANIZATION HAS LED TO CONSIDERABLE FOCUSING OF ATTENTION IN BOTH INDUSTRY CIRCLS AND THE PRESS ON MITI'S OWN PAST MISTAKES, EVEN TO THE PINT THAT THE WEEKLY QTE ECONOMIST UNQTE DESCRIBED THE PLAN AS AN ADMISSION OF THE FAILURE OF KYODO. NONETHELESS, THE FINANCIAL ORDEAL OF THE POST-OIL CRISIS RECESSION HAS LEFT DOMESTIC OIL COMPANIES AND THEIR BANKERS IN A MOOD TO SERIOUSLY CONSIDER STEPS TO COOPERATE MORE IN PURCHASING, STORAGE, DISTRIBUTION, AND CONTRACT-REFINING (INCLUDING CONTRACTS WITH THE MAJORS) IN ORDER TO SPREAD AROUND THE GAP BETWEEN CAPACITY AND MARKET SHARE. THE SHOCK ADMINISTERED BY MITI MAY AFTER ALL STIMULATE SOME NEW INITIATIVE IN TACKLING THE INDUSTRY'S STRUCTURAL PROBLEMS.
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